

Annual Report 1982

La Luz Mines Limited



La Luz

Board of Directors

Robert E. Fasken, Oakville, Ontario
Vice President

K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Partner, Holden Murdoch & Finlay, Barristers and Solicitors

Caldwell J. Kerr, Brampton, Ontario
President, Canameque Equipment Company Limited

Brian K. Meikle, Mississauga, Ontario
Vice President, Operations, Camflo Mines Limited

Robert M. Smith, Oakville, Ontario
President

Officers

Robert M. Smith — *President*

John C. Charles — *Executive Vice-President*

Robert E. Fasken — *Vice President*

C. Bruce Burton — *Vice President, Finance*

William R. Robertson — *Secretary*

Robert D. Sherman — *Treasurer*

Transfer Agent and Registrar

Crown Trust Company
Toronto, Canada

Auditors

Thorne Riddell
Toronto, Canada

Executive and Head Office

Suite 3001, South Tower, P.O. Box 45
Royal Bank Plaza
Toronto, Canada M5J 2J1

Annual and General Meeting of Shareholders

June 6, 1983, 11:00 a.m.
Toronto-Dominion Centre
Commercial Union Tower
7th Floor, Toronto, Ontario

Share Listing

The Toronto Stock Exchange
Share Symbol: LAZ

Directors' Report to the Shareholders

Management continued efforts in 1982 to bring Muskingum and Crown City coal mines to a level of profitable operation. In addition management worked closely with the Corporation's bankers to evolve a more reasonable financial structure in view of previous years' losses.

The consolidated net loss for the year ended December 31, 1982 was \$7,287,224* or \$4.61 per share compared with a net loss of \$11,332,303 or \$7.17 per share after an extraordinary gain of \$413,309 for the year ended December 31, 1981.

The Corporation's coal revenue rose to \$38,518,865 in 1982 compared with \$27,060,409 in 1981. This increase resulted from higher coal prices received under the Corporation's escalating coal price contracts at both the Muskingum and Crown City mines and a tonnage increase in 1982 as a result of greater production efficiency and the fact that 1981's production was adversely affected by the United Mine Workers strike. A total of 1,072,000 tons were sold in 1982 compared with 828,000 tons in 1981. Average revenue per ton increased to \$35.93 from \$32.68 in 1981.

During 1982, operating and administrative expenses as a percentage of total revenue were reduced to 89% whereas in 1981 these expenses exceeded total revenue.

The operations generated \$3,083,346 of working capital during 1982 compared with absorbing \$3,998,836 of working capital in 1981. This incremental funds flow of \$7,082,182 enabled the Corporation to reduce its financial dependency on its parent company. During 1982, the Corporation received advances from Camflo Mines Limited, its parent company, in the amount of \$1,380,000 compared with \$9,608,753 in 1981. The 1982 advances, which were received early in the first quarter of the year, represent the final funding by the parent company.

During the year, the Corporation repaid \$3,437,886 of long term liabilities and made capital additions in the amount of \$6,066,431. Funds for approximately \$4 million of capital additions were obtained through lease agreements. The Corporation expects that cost savings to the mining operations will cover the cost of the lease payments.

As discussed in last year's report to the shareholders, during the latter part of 1981 and the first quarter of

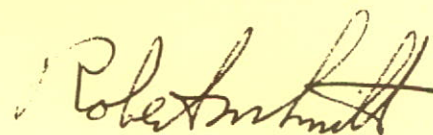
1982, the Corporation endeavoured to sell the Crown City Mine. Negotiations were terminated without success. Cash flow and profits generated from the Crown City Mine during 1982 helped to fund the Muskingum Mine while operating improvements were made. Improvements at Muskingum continued throughout 1982 and management expects continued operational efficiency throughout 1983.

In 1982, the Corporation initiated the restructuring of its financial commitments to the Corporation's bankers, Muskingum Mine's lessor, New York Life Insurance Company and the Corporation's parent. All parties have co-operated fully with management's programme and their efforts have been most appreciated. It is expected that during the second quarter of 1983, the debt restructuring will be completed. The new arrangements with the bankers and New York Life will have the effect of amortizing the Corporation's debt and lease payments over a longer period of time which will improve the Corporation's current cash flow. The parent company has agreed to convert \$27,865,000 from long term indebtedness to shareholders' equity as a part of a rights offering proposed by the Corporation to take place in the second quarter of 1983. Reference is made to Note 10 to the Financial Statements and to the Pro Forma balance sheet presented on page 10 of this report.

Economic conditions prevalent in North America have had a negative impact on the energy industry in general and the coal industry in particular. The Corporation's customer, American Electric Power Company, has experienced reduced demand for electric power which in turn has reduced their coal purchase requirements. During 1982, a 10% reduction in coal delivery was requested by the Utility and agreed to by the Corporation. For 1983, reductions from contractual tonnages are expected to continue.

Management is encouraged by the improvement of the operations in 1982 and looks forward to and expects continuing improvements for 1983. Management notes with appreciation the efforts, loyalty and contribution of all operating personnel during the past difficult period.

On behalf of the Board of Directors,



R. M. Smith,
President

March 31, 1983

*(All dollars in this report are in U.S. currency.)

Consolidated Balance Sheet

as at December 31, 1982
(Expressed in U.S. Dollars)

La Luz Mines Limited

Assets	1982	1981
Current assets		
Cash	\$ 1,638,266	\$ 96,113
Accounts receivable	3,173,299	3,613,512
Inventories (note 3)	1,898,135	1,598,718
Prepaid expenses	264,522	398,563
	<u>6,974,222</u>	<u>5,706,906</u>
Investment in parent company, at cost (quoted market value \$1,220,000; 1981 \$1,645,000)	<u>1,237,804</u>	<u>1,237,804</u>
Fixed assets, at cost less accumulated depreciation, depletion and amortization (note 4)	<u>32,384,147</u>	<u>30,994,247</u>
Other assets		
Preproduction expenditures, less amortization	1,669,065	1,860,553
Petroleum and natural gas interests, less depletion	195,246	247,568
Advance royalty payments	424,485	1,586,216
Deferred reclamation costs (note 2)	482,891	
Other	251,000	261,007
	<u>3,022,687</u>	<u>3,955,344</u>
	<u>\$ 43,618,860</u>	<u>\$ 41,894,301</u>
Liabilities	1982	1981
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 8,390,618	\$ 6,580,802
Current maturities of long term liabilities	<u>5,710,407</u>	<u>5,238,010</u>
	<u>14,101,025</u>	<u>11,818,812</u>
Long term liabilities (note 6)	<u>50,171,080</u>	<u>43,441,510</u>
Capital stock and deficit		
Capital stock		
Authorized 3,000,000 shares without par value		
Issued 1,580,759 shares	3,372,829	3,372,829
Deficit	<u>24,026,074</u>	<u>16,738,850</u>
	<u>(20,653,245)</u>	<u>(13,366,021)</u>
	<u>\$ 43,618,860</u>	<u>\$ 41,894,301</u>

Contingent liabilities and commitments (note 7)

Subsequent event (note 10)

Approved by the Board


Director


Director

Consolidated Statement of Operations

Year ended December 31, 1982

(Expressed in U.S. Dollars)

	1982	1981
Revenue		
Coal	\$ 38,518,865	\$ 27,060,409
Petroleum and natural gas	146,336	147,163
	<u>38,665,201</u>	<u>27,207,572</u>
Operating and administrative expenses	34,378,454	27,819,865
Interest	6,966,721	7,691,254
Depreciation, depletion and amortization	4,617,136	3,629,791
	<u>45,962,311</u>	<u>39,140,910</u>
Loss before the undernoted	(7,297,110)	(11,933,338)
Investment and other income	9,886	187,726
Loss before extraordinary item	(7,287,224)	(11,745,612)
Gain on sale of investment		413,309
Loss for the year	\$ (7,287,224)	\$ (11,332,303)
Loss per share		
Loss before extraordinary item	\$ (4.61)	\$ (7.43)
Loss for the year	\$ (4.61)	\$ (7.17)

Consolidated Statement of Deficit

Year ended December 31, 1982

(Expressed in U.S. Dollars)

	1982	1981
Deficit at beginning of year	\$ 16,738,850	\$ 5,406,547
Loss for the year	7,287,224	11,332,303
Deficit at end of year	\$ 24,026,074	\$ 16,738,850

AUDITORS' REPORT

To the Shareholders of
La Luz Mines Limited

We have examined the consolidated balance sheet of La Luz Mines Limited as at December 31, 1982 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied except for the change at December 31, 1982 in the method of accounting for reclamation costs as described in note 2 with which we concur on a basis consistent with that of the preceding year.

Toronto, Canada.
March 15, 1983

(March 31, 1983 as to notes 7(a) and 10)

Thorne Riddell
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1982

(Expressed in U.S. Dollars)

	1982	1981
Working capital derived from		
Operations	\$ 3,083,346	
Advances from affiliated and parent companies	1,380,000	\$ 9,608,753
Increase in long term liabilities	4,403,754	
Other assets	212,854	285,618
Proceeds on sale of investment		517,969
	<u>9,079,954</u>	<u>10,412,340</u>
Working capital applied to		
Operations		3,998,836
Additions to fixed assets	6,066,431	2,350,425
Retirement of long term liabilities	3,437,886	3,964,681
Deferred reclamation costs	482,891	
Advance royalty payments	107,643	916,361
	<u>10,094,851</u>	<u>11,230,303</u>
Decrease in working capital position	1,014,897	817,963
Working capital deficiency at		
beginning of year	<u>6,111,906</u>	<u>5,293,943</u>
Working capital deficiency at		
end of year	<u>\$ 7,126,803</u>	<u>\$ 6,111,906</u>

MANAGEMENT REPORT

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change at December 31, 1982 in the method of accounting for reclamation costs as described in note 2. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the financial statements.



R. M. Smith, President



C. B. Burton, V.P. Finance

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1982
(Expressed in U.S. Dollars)

The company is incorporated in the Province of Ontario under the Business Corporations Act. As at December 31, 1982 approximately 58% of the issued shares of the company were owned by Camflo Mines Limited. The principal activities of the company consist of coal mining operations in the State of Ohio, U.S.A. through its wholly owned subsidiary La Luz Ohio, Inc. operating under the names of Crown City Mining Company and Muskingum Mining Company (referred to collectively herein as the coal enterprises).

1. Summary of Significant Accounting Policies

- (a) Basis of consolidation
These consolidated financial statements include the accounts of the company and its wholly owned U.S. subsidiaries, Panaminas Incorporated and La Luz Ohio, Inc. All material intercompany transactions have been eliminated.
- (b) Inventories
Mine operating supplies and coal are recorded at cost.
- (c) Depreciation, depletion and amortization
 - (i) Coal
The company uses the unit of production method to compute depletion and amortization on coal lands and preproduction expenditures and the straight line method of depreciation on the major portion of the property, buildings and equipment. Major repairs are capitalized and depreciated over a three year period.
 - (ii) Petroleum and natural gas
The company follows the full cost method of accounting for its petroleum and natural gas interests whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are ordinarily credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves.
- (d) Basis of translation of Canadian currency
Canadian currency has been translated as follows:
 - (i) Current assets and liabilities, at exchange rates prevailing at the year end;
 - (ii) All other assets and liabilities, at exchange rates prevailing at the date the

assets were acquired or the liabilities incurred;

- (iii) Revenues and expenses, at the average exchange rate for the year except for depreciation, depletion and amortization which are based on the cost of assets as translated;
- (iv) Unrealized foreign exchange gains and losses are included in operations.
- (e) Reclamation
Management estimates the cost of restoring land disturbed by the mining process and records the liability and offsetting deferred costs at the time the lands are affected. The deferred costs are charged to operations as coal is extracted at a rate based on the total cost of restoring lands to be affected and the total number of tons of recoverable coal, by mining permit area.
- (f) Comparative figures
Certain comparative figures for 1981 have been reclassified to conform with financial statement presentation adopted in 1982.

2. Accounting Change

Effective January 1, 1982, the company changed its method of charging reclamation costs to operations as described in note 1(e). Prior to 1982, reclamation costs were charged to operations in the year in which the coal lands were disturbed. The effect of this change in accounting principle resulted in a decrease of \$483,000 in the loss for the year ended December 31, 1982. The effect of this change in accounting as of December 31, 1981 is not determinable.

Also effective January 1, 1982 the company revised its method of estimating the reclamation liability. This change in accounting estimate had the effect of increasing the loss for the year ended December 31, 1982 by \$675,000.

3. Inventories

	1982	1981
Mine operating supplies	\$ 1,362,961	\$ 1,222,649
Coal	535,174	376,069
	<u>\$ 1,898,135</u>	<u>\$ 1,598,718</u>

4. Fixed Assets

	1982	1981
Land	\$ 9,189,966	\$ 9,114,957
Buildings	1,652,604	1,621,104
Machinery and equipment	30,492,059	31,290,645
Washing and preparation plant	2,400,026	2,400,026
Equipment under capital leases	4,787,789	384,035
Vehicles	859,303	795,836
Furniture and fixtures	92,224	73,713
	<u>49,473,971</u>	<u>45,680,316</u>
Less accumulated depreciation, depletion and amortization	<u>17,089,824</u>	<u>14,686,069</u>
	<u>\$32,384,147</u>	<u>\$30,994,247</u>

5. Accounts Payable and Accrued Liabilities

	1982	1981
Trade and other	\$ 5,122,960	\$ 4,399,325
Related companies	492,658	281,477
Accrued reclamation liability	2,775,000	1,900,000
	<u>\$ 8,390,618</u>	<u>\$ 6,580,802</u>

Accrued reclamation liability represents management's estimate of the cost of restoring the land affected by mining operations based on engineering surveys and aerial photography.

The company has provided as security to the State of Ohio surety bonds in the approximate amount of \$10,281,000 (1981, \$13,327,000) to ensure the performance of this restoration work.

6. Long Term Liabilities

	1982	1981
Notes payable	\$ 8,191,535	\$10,484,575
Mortgage payable	5,500,000	5,894,000
Capital leases	4,282,362	156,565
Loans and notes payable, parent and affiliated companies ..	37,865,356	32,101,654
Other	42,234	42,726
	<u>55,881,487</u>	<u>48,679,520</u>
Less current maturities ..	<u>5,710,407</u>	<u>5,238,010</u>
	<u>\$50,171,080</u>	<u>\$43,441,510</u>

Maturities due subsequent to 1983 for the notes and mortgage payable are:

1984	\$3,659,488
1985	\$3,502,651
1986	\$1,638,969

	1982	1981
Notes payable		
Notes payable, secured by certain equipment of the coal enterprises, bearing interest at rates varying from 1½% to 2½% above U.S. prime rate maturing approximately as follows:		
1983, \$1,939,000;		
1984, \$1,708,000;		
1985, \$ 780,000;		
1986, \$1,358,000 ..	\$ 5,785,285	\$ 7,512,825

Notes payable, secured by the coal washing plant and the same collateral securing the mortgage payable (see below) bearing interest at U.S. prime plus 2% and repayable in quarterly principal instalments of \$93,750	1,406,250	1,593,750
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	1982	1981
Notes payable, unsecured, bearing interest at 6%, due currently	1,000,000	1,378,000
	<u>\$ 8,191,535</u>	<u>\$10,484,575</u>

Mortgage Payable

The mortgage payable bears interest at 2% above the lender's New York prime commercial rate payable monthly. Principal repayments of \$394,000 are to be made quarterly until July 1, 1985 at which time the entire unpaid balance becomes due. Principal repayments may be accelerated under certain conditions. The mortgage is secured by the company's investment in the coal enterprises including liens upon substantially all of their assets and a pledge of marketable securities. The company's parent has also guaranteed repayment of the loan.

In addition to the aforementioned payments, within 90 days after June 30, the coal enterprises must also make additional annual payments on principal in the amount of 80% of their cash flow as calculated in the loan agreement. Such additional payments shall be applied to principal in inverse order of maturity. As of December 31, 1982, no additional payments have been required.

Capital leases

Capital leases represent the present value of the net minimum lease payments, as at December 31, 1982, calculated at the lessor's implicit interest rates, which vary from 8½% to 11%. The leases are secured by a pledge of certain machinery and equipment.

Payments due under capital leases are as follows:

	Payments	Deferred Interest	Principal
1983	\$1,227,352	\$ 407,372	\$ 819,980
1984	1,168,172	305,596	862,576
1985	1,148,445	212,380	936,065
1986	994,648	117,238	877,410
1987	821,880	35,549	786,331
	<u>\$5,360,497</u>	<u>\$1,078,135</u>	<u>\$4,282,362</u>

Loans and notes payable, parent and affiliated companies

	1982	1981
Loans payable, secured by certain of the company's assets bearing interest at U.S. prime interest rate plus 1½% maturing January 31, 1986	\$37,365,356	\$31,601,654

Notes payable, unsecured, maturing October 9, 1984, \$400,000; January 29, 1985, \$100,000, bearing interest at 18%	500,000	500,000
	<u>\$37,865,356</u>	<u>\$32,101,654</u>

7. Contingent Liabilities and Commitments

- (a) Under an agreement, as amended July 14, 1982, coal mining rights have been leased to Muskingum Mining Company (Muskingum) in consideration for a royalty payment of \$3.51 per ton (\$4.08 per ton in 1983 and \$3.81 per ton thereafter) on the greater of 700,000 tons per year or the coal produced and shipped in the year. Royalties paid in excess of coal produced and shipped in the year can be applied against royalties due in subsequent lease years on production in excess of the annual minimum tonnage requirements. The amendment to the lease permitted the use of prepaid royalties as satisfaction of royalties due to December 25, 1982. The lease is for a term of twenty years ending October 31, 1998, subject to the lessee's right to surrender the lease at any earlier time when all economically mineable coal has been mined or minimum royalties on 14,000,000 tons have been paid. The lease may be renewed for successive three year periods.

Under the terms of the coal lease, Muskingum is required to maintain at least \$2,000,000 working capital (as defined). As at December 31, 1982, Muskingum was not in compliance with this covenant. The lessor has waived this default to December 31, 1983. Further the lease agreement has been amended effective January 1, 1984 to reduce the required level of working capital to a minimum of \$1 except that distributions to affiliates cannot reduce the level of working capital to below \$2,000,000.

- (b) In consideration of the guarantee of the mortgage payable (note 6) and certain reclamation bonds (note 5), the coal enterprises have agreed to pay a commitment fee to the parent company (1982 \$.30 per ton, as amended to \$.10 per ton January 1, 1983), on all coal mined and sold.

8. Related Party Transactions

- (a) Interest expense includes \$4,473,702 (1981, \$4,296,985) charged by related companies. Operating expenses include \$323,135 (1981, \$248,864) paid as commitment fees to the parent company and \$41,410 (1981, \$57,892) paid to a legal firm of which a director is a partner.

The company shares office premises with certain related companies and certain administrative expenses are allocated amongst the companies.

- (b) All of the company's coal revenues are derived from sales to an electric power utility located in the State of Ohio.

9. Income Taxes

The company and its subsidiaries have non-capital losses and tax credits of approximately \$41,591,000. These losses and tax credits are

available for carry forward to future years and are restricted to fiscal years not later than:

	United States Subsidiaries		
	Loss carry forwards	Loss carry forwards	Investment and new jobs tax credit
1984	\$ 104,000		
1985	829,000		
1986	253,000		
1987	284,000		
1989		\$ 352,000	\$ 99,000
1990		1,308,000	149,000
1991		3,298,000	44,000
1992		1,486,000	96,000
1993		2,593,000	307,000
1994		4,464,000	717,000
1995		8,610,000	518,000
1996		10,119,000	235,000
1997		5,600,000	126,000
	<u>\$1,470,000</u>	<u>\$37,830,000</u>	<u>\$2,291,000</u>

Further to the above, the company has accumulated net capital tax loss carry forwards of approximately \$1,368,000 which may be carried forward indefinitely for application against future taxable capital gains.

The benefit relating to these tax loss carry forwards has not been recorded in the accounts.

10. Subsequent Event

The company proposes to seek shareholder approval to an application for Articles of Amendment to create 7,000,000 non-cumulative, participating, convertible, voting Class A preference shares with a par value of Cdn. \$.01 and to create 2,000,000 6%, non-voting, non-cumulative participating redeemable Class B preference shares with a par value of Cdn. \$.10, redeemable at a price of Cdn. \$9.00 each. Subject to shareholder and regulatory approval, the company will offer shareholders the right to purchase one unit consisting of three Class A preference shares and one Class B preference share for each share now held for a total price of Cdn. \$13.50.

The parent company has undertaken to acquire such number of units as will ensure that the company receives not less than Cdn. \$21,315,000 (U.S. \$17,346,000), which if required will increase the parent's equity in the company from 58% to 89.5%.

The proceeds on the issuance of the shares will be used to retire a portion of the loans and notes payable to the parent and affiliated companies. As a part of this refinancing program, the parent and affiliated companies will contribute by way of forgiveness accrued interest payable by the company of \$10,519,000.

The effect of these transactions when consummated will be to reduce long term liabilities and increase shareholders' equity by \$27,865,000.

Pro Forma Condensed Consolidated Balance Sheet

as at December 31, 1982

(Expressed in U.S. Dollars)

(unaudited)

	Pro Forma	Historic
Current assets	\$ 6,974,222	\$ 6,974,222
Investment in parent company	1,237,804	1,237,804
Fixed assets	32,384,147	32,384,147
Other assets	3,022,687	3,022,687
	<u>\$43,618,860</u>	<u>\$43,618,860</u>
Accounts payable and accrued liabilities	\$ 8,390,618	\$ 8,390,618
Current maturities of long-term liabilities	5,710,407	5,710,407
	<u>14,101,025</u>	<u>14,101,025</u>
Long-term liabilities		
Loans and notes payable, parent and affiliated companies	10,000,000	37,865,356
Other	18,016,131	18,016,131
	28,016,131	55,881,487
Less current maturities	5,710,407	5,710,407
	<u>22,305,724</u>	<u>50,171,080</u>
Capital stock	20,719,553	3,372,829
Contributed surplus	10,518,632	—
Deficit	(24,026,074)	(24,026,074)
	<u>7,212,111</u>	<u>(20,653,245)</u>
	<u>\$43,618,860</u>	<u>\$43,618,860</u>

COMPILATION REPORT

To the Shareholders of
La Luz Mines Limited

We have reviewed, as to compilation only, the accompanying pro forma condensed consolidated balance sheet of La Luz Mines Limited as at December 31, 1982. In our opinion, the pro forma condensed consolidated balance sheet has been properly compiled based on the transactions and assumptions described in the note thereto.

Toronto, Canada.
March 31, 1983

Thorne Riddell
Chartered Accountants

Notes to Pro Forma Condensed Consolidated Balance Sheet

AS AT DECEMBER 31, 1982

(Expressed in U.S. Dollars)

(unaudited)

1. The pro forma condensed consolidated balance sheet as at December 31, 1982 is referenced to the company's Consolidated Financial Statements as at December 31, 1982.
2. The pro forma condensed consolidated balance sheet gives effect to the following transactions as though they had taken place at December 31, 1982:

The company proposes to seek shareholder approval to an application for Articles of Amendment to create 7,000,000 non-cumulative, participating, convertible, voting Class A preference shares with a par value of Cdn. \$.01 each and to create 2,000,000 6%, non-voting, non-cumulative participating redeemable Class B preference shares with a par value of Cdn. \$.10 each, redeemable at a price of Cdn. \$9.00 each. Subject to shareholder and regulatory approval, the company will offer shareholders the right to purchase one unit consisting of three Class A preference shares and one Class B preference share for each share now held for a total price of Cdn. \$13.50.

The parent company has undertaken to acquire such number of units as will ensure that the company receives not less than Cdn. \$21,340,000 (U.S. \$17,346,724), which if required will increase the parent's equity in the company from 58% to 89.5%.

The proceeds on the issuance of the shares will be used to retire a portion of the loans and notes payable to the parent and affiliated companies. As a part of this refinancing program, the parent and affiliated companies will contribute by way of forgiveness accrued interest payable by the company of \$10,518,632.

